

TABLE 5. FEDERAL REPUBLIC OF GERMANY: REVENUE LOSS FROM TAX RELIEF BY AREA OF ECONOMIC ACTIVITY, 1979 TO 1982 (In percents)

Area of Economic Activity	1979		1980		1981		1982	
	Total ^a	Federal	Total ^a	Federal	Total ^a	Federal	Total ^a	Federal
Food, Agriculture, and Forestry								
Agriculture in general	6	5	5	4	4	3	3	2
European Community agrarian market	<u>2</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>---</u>	<u>---</u>	<u>---</u>	<u>---</u>
Subtotal	<u>8</u>	<u>8</u>	<u>6</u>	<u>5</u>	<u>4</u>	<u>3</u>	<u>3</u>	<u>2</u>
Industry (Not Including Transportation)								
Mining	1	1	1	1	1	1	1	1
Regional economic structure	24	26	27	28	28	29	29	30
Credit economy	2	1	2	1	b	---	---	---
Industry in general	<u>5</u>	<u>5</u>	<u>5</u>	<u>4</u>	<u>6</u>	<u>5</u>	<u>5</u>	<u>5</u>
Subtotal	<u>32</u>	<u>33</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>35</u>	<u>36</u>
Transportation	6	9	6	9	6	9	6	8
Housing and Urbanization	22	15	21	15	22	16	23	16
Savings Promotion and Wealth Formation	15	14	14	12	13	12	13	11
Other ^c	<u>17</u>	<u>22</u>	<u>18</u>	<u>24</u>	<u>19</u>	<u>25</u>	<u>20</u>	<u>26</u>
Total ^d	100	100	100	100	100	100	100	100

SOURCE: The Eighth Report on Subsidies: The Report of the Federal Government on the Development of Financial Assistance and Tax Relief for the Years 1979 to 1982, Bundestag publication 9/986 (Bonn, November 1981), Table 10, p. 24.

- a. Tax relief provisions in federal, state, and local tax systems.
- b. Less than 0.5 percent.
- c. Includes most social welfare assistance.
- d. Details may not add to totals because of rounding.

Austria

In Austria, a tax expenditure list is included in each year's general report on government subsidies. The first subsidy report, published in 1978, was modeled on the German example. The Austrian reports distinguish between direct and indirect subsidies, defining indirect or tax subsidies, as "government revenues forgone due to exceptions from the general tax norm to the advantage of other agents (jurisdictions, individuals, and other units outside federal government), with a view to their private activities performed in the interest of the general public." This definition excludes tax expenditures of a mere income maintenance character.⁶ Tax expenditure provisions are listed according to budget function--fine arts, science and research, economy, social welfare, saving, and residential building--and type of beneficiary--private households, enterprises, and agriculture. Revenue loss estimates for the central government and the federal government (central, provincial, and local governments combined) are included where possible.

Canada

Since 1979, Canada has applied the tax expenditure concept to its system of budgetary accounting. In order to allocate its resources more efficiently, the Canadian government perceived a need for multiyear budgetary planning and for closer scrutiny of proposals for direct spending and new tax expenditures. In 1979, it introduced the Policy and Expenditure Management System which reorganized the budget process by dividing all direct spending and new tax expenditures into ten policy area groups called "envelopes." The combined direct spending and tax expenditures in each envelope are required to stay within a spending limit set for each fiscal year. The system is designed to promote comparisons and tradeoffs of all types of government aid whenever limited resources force reductions.⁷

At the same time, Canada's Department of Finance published its first official tax expenditure budget. In 1980, a second tax expenditure list providing historical data from 1976 to 1980 was published; another update

⁶ Austrian Ministry of Finance, Subventionsbericht (1980), para. 3.312.

⁷ For more information about the Policy and Expenditure Management System and the integration of tax expenditures into the Canadian budget process, see Congressional Budget Office, Tax Expenditures: Budget Control Options and Five-Year Budget Projections for Fiscal Years 1983-1987 (November 1982), Chapter IV.

is currently being prepared. Both published lists cover only federal personal and corporate income taxes and federal sales and excise taxes. If provincial individual tax expenditures were combined with those of the federal tax system, the total revenue effect was judged to be on average about one-third to one-half greater than the federal values shown.⁸

About 75 percent of the 1980 revenue loss from tax expenditures that could be estimated (estimates were provided for about half of the 206 provisions listed) fell under two budget functions--economic development and support and health and welfare. Also, about 80 percent of the quantifiable increase in revenue loss from tax expenditures between 1976 and 1979 resulted from increases under these two budget functions. The concentration of direct spending in these two areas is also very high, another reflection of the government's policy priorities for economic and social development.

From 1976 to 1979, the growth rate of Canadian tax expenditures was about 50 percent higher than the growth rate of direct spending.⁹ It is not unexpected, therefore, that public interest in the official tax expenditure budgets has been significant. The estimates are frequently quoted by members of Parliament and are used for analysis in both the public and private sectors.

In addition to the formal tax expenditure accounts, the Department of Finance published a special report on tax expenditures for individuals in autumn 1981. The report estimated that in 1979 tax expenditures reduced federal tax receipts from individuals by 13.8 billion Canadian dollars, about 80 percent of the amount actually paid in federal individual income taxes. The report identified several tax expenditures as either outdated or inefficient mechanisms to deliver government subsidies. Others were noted as particularly subject to abuse, thus encouraging tax avoidance.¹⁰ The report was presented with the November 1981 budget, which included proposals to eliminate or reduce several tax preferences. While some of

⁸ Canadian Department of Finance, Tax Expenditure Account (Ottawa, December 1980), pp. 8-9.

⁹ Allan J. MacEachen, former Minister of Finance, "Integration of Tax Expenditures into the Government Fiscal Management System," Bulletin for Fiscal Documentation, International Bureau of Fiscal Documentation, vol. 36 (8-9), (August-September 1982), p. 348. Also reprinted in the Congressional Record (September 27, 1982), p. S12318.

¹⁰ Canadian Department of Finance, Analysis of Federal Tax Expenditures for Individuals (Ottawa, November 1981), pp. 1-2.

these proposals were later modified, the government's policy to institute certain tax reforms generally remained intact.¹¹

Although the experience with the Policy and Expenditure Management System has been brief, it apparently has reduced pressure on the Minister of Finance to introduce new tax preferences. Several new or expanded tax preferences were included in the April 1983 budget, however, along with several special direct spending programs. This "special recovery program" is specifically targeted to provide jobs and promote economic growth in response to the extremely high unemployment now being experienced in Canada.¹²

The United Kingdom

The British government publishes a list of "direct tax allowances and reliefs" in its annual budget documents. (Indirect tax preferences are not listed.) The first list was included in the budget documents for fiscal year 1979-1980. The government does not attempt to identify which provisions in the list can be defined strictly as tax expenditures, or to link the tax relief provisions with direct outlay programs. The list appended to the 1982-1983 budget provided revenue loss estimates for all 108 relief provisions, of which 81 applied to the individual and corporate income taxes and the capital gains tax. Others were provisions of the petroleum revenue tax, the supplementary petroleum duty, the development land tax, the capital transfer tax, or the stamp duty. An estimate of the total revenue loss from tax reliefs was not shown.¹³

¹¹ Canadian Department of Finance, The Budget in More Detail, presented to the House of Commons by the Honorable Allan J. MacEachen, Deputy Prime Minister and Minister of Finance (Ottawa, November 12, 1981), pp. 49-51.

¹² Canadian Department of Finance, Budget speech delivered to the House of Commons by the Honorable Marc LaLonde, Minister of Finance (Ottawa, April 19, 1983), pp. 18-19. When the Department of Finance released the budget, it projected unemployment to average 12.4 percent in 1983 and 11.4 percent in 1984.

¹³ The United Kingdom, The Chancellor of the Exchequer, The Government's Expenditure Plans 1982-1983 to 1984-1985, vol. II (London, March 1983), pp. 98-99. (Note: In the United Kingdom, the government's fiscal year runs from April 1 to March 31.)

The purpose of the British annual listings of tax preferences is purely informational. Even though the tax expenditure lists compiled by the Administration and Congressional staff in the United States are also only informational documents, they attract much more attention than the lists published by the British government. Little text accompanies the U.K. lists; a short introduction outlines the problems involved in estimating revenue losses from tax expenditures. The tax expenditure concept and individual provisions are more fully explained in the U.S. budget documents.¹⁴ Legislators and special interest groups in both countries consult the lists for possible program changes and tradeoffs, but this occurs much more frequently in the United States.

The problems of definition and measurement in estimating tax expenditures have discouraged British tax officials from more extensive work in this area. Any new procedure to integrate tax expenditures into the budget process is therefore highly unlikely. Apart from the technical difficulties, the Treasury's decision may also reflect the British tradition of less public debate and legislative review of budget decisions, with fewer resources devoted to technical support staffs and published information than has been the rule in the United States. In October 1977, the Treasury reported to the Expenditure Committee, a former Select Committee of the House of Commons, that it favored supplying estimates of tax expenditures on an ad hoc basis rather than yearly:

The construction of a tax expenditure budget of the kind compiled in the United States would represent a substantial diversion of effort; and it would only be justified if a comprehensive list of this kind was of significantly greater value as an analytical tool for the appraisal of policy than the provision of par-

¹⁴ See, for instance, Congressional Budget Office, Tax Expenditures: Budget Control Options and Five-Year Budget Projections for Fiscal Years 1983-1987 (November 1982), and preceding annual reports by CBO on tax expenditures. See also "Special Analysis G" in annual Administration budget documents; Joint Committee on Taxation, Estimates of Federal Tax Expenditures for Fiscal Years 1983-1988, committee print (March 7, 1983) and preceding annual Joint Committee prints; and Committee on the Budget, United States Senate, Tax Expenditures: Relationships to Spending Programs and Background Material on Individual Provisions (March 17, 1982).

ticular estimates when specific areas of policy are being studied. For the reasons described above, it is doubtful whether this would be so.¹⁵

Lists of tax allowances and reliefs subsequently were compiled in response to the interest shown in Parliament.

In Britain, recent changes in budget procedure to reduce government deficits have concentrated on controlling direct outlays rather than tax expenditures. Since 1976, cash limits have been imposed on most direct spending programs, with allowances for inflation included in the ceilings.¹⁶ These limits do not, however, represent a move toward integrating spending and taxing decisions within the budget process. The British system introduces separate tax and spending plans with less long-term coordination between them than is seen in most other industrialized countries.¹⁷

France

For the last three years, a detailed tax expenditure budget has been included in the French government's annual budget documents. Article 32 of the Revenue Act of 1980 required that a listing of tax expenditures be published by tax source, policy objective, and category of beneficiary. The first list, published in 1980 for the 1981 budget, included 317 provisions, 123 of which were estimated. In 1981, revenue loss estimates were provided for almost half of the 330 tax expenditures listed, and in 1982 estimates were provided for 165 out of the 342 tax expenditures listed (see Table 6). Provisions related to regional or local tax law were not included and no totals were given.¹⁸

15 "The Interface of Public Expenditure and Taxation," memorandum by the Treasury, United Kingdom, included in memoranda to the minutes of evidence taken before the Expenditure Committee of the House of Commons, General Subcommittee (October 1977).

16 T.S. Ward, "Budgetary Practice in the United Kingdom," Public Budgeting and Finance, vol. 2, no. 3 (Autumn 1982), pp. 35-42.

17 Institute for Fiscal Studies, Budgetary Reform in the U.K., Report of the Armstrong Committee (Oxford: Oxford University Press for the Institute for Fiscal Studies, 1980).

18 French Ministry of Economy and Finance, Statistics and Financial Studies, No. 381, "Tax Expenditures" (Paris, July 1981), pp. 50-51; and

TABLE 6. FRANCE: TAX EXPENDITURES BY TAX SOURCE, POLICY OBJECTIVE, AND TYPE OF BENEFICIARY FOR 1980 AND 1982 (In percents)

	1980	1982
Tax Source		
Income tax	61	62
Corporate tax	15	16 ^a
Value-added tax	12	14
Stamp duty	3	4
Other indirect taxes	6	1 ^b
Payroll tax	1	c
Wealth tax	d	d
Oil consumption tax	<u>e</u>	<u>3^b</u>
Total	100	100
Policy Objective		
Productive investment	25	15
Regional and sectoral aid	24	20
Social transfers	20	32
Housing	11	10
Saving	10	17
Simplification of administration	5	e
Export trade	3	5
Other	<u>e</u>	<u>1</u>
Total	100	100
Type of Beneficiary^f		
Industrial enterprises	25	27
Families	25	33
Investors	12	e
Inheritors of property	10	10
Agricultural enterprises	8	2
Socially disadvantaged	6	e
Property owners	4	4
Certain categories of workers	3	3

(Continued)

TABLE 6. (Continued)

	1980	1982
Type of Beneficiary (continued)		
Various social categories	e	13
Other	<u>6</u>	<u>8</u>
Total	100	100

SOURCES: Reproduction of sections of Budget Papers for 1981 in France, Ministry of Economy and Finance, Statistiques et Etudes Financieres, No. 381, "Tax Expenditures" (Paris, July 1981), pp. 52-53; and France, Bureau of the Budget, Ways and Means Estimates in Budget Papers for 1983, "Part Three: Tax Expenditures" (Paris, 1982), pp. 106-215.

NOTE: Percentages of the total of estimated tax expenditures only. Just under half of the provisions identified as tax expenditures were estimated. Details may not add to totals because of rounding.

- a. This includes 10 percent also attributable to the income tax.
- b. This includes some incidence of the value-added tax.
- c. Less than 0.5 percent. This does not include income tax provisions regarding wages.
- d. None of the wealth tax provisions were estimated.
- e. Not a category shown in this year's listing.
- f. For 1982, not all of the estimated tax expenditure provisions were assigned to a beneficiary category.

The official lists were compiled after the Minister of Economy and Finance became interested in educating policymakers about tax expenditures as the government sought ways to control continuing large deficits. Earlier government work had already led in this direction; estimates of several tax preferences had been supplied on an ad hoc basis in earlier budget papers and financial reports. Annual reports on public funding for industrial enterprises have been statutorily required since 1974, and they have included information on tax expenditures for business. In 1978, a report on tax preferences for housing was published.¹⁹ In addition, the Council on Taxation (similar to the U.S. Treasury Department's Office of Tax Analysis) has been providing revenue loss estimates for many tax expenditures since 1972. In 1979, the Council published a report that explained the tax expenditure concept and listed 87 provisions that qualified as tax expenditures (mostly without revenue loss estimates).²⁰

Certain criteria for identifying basic or standard tax provisions (as opposed to tax expenditures) have come to be accepted by French tax analysts:

- o How long the provision has been in place: a measure may become the standard after a long period of time;
- o How generally the provision applies: a provision that affects the majority of taxpayers could be considered a standard; and
- o How closely the provision is linked to a principle generally accepted as a standard.

Also, any provisions specifically designed to be special incentives are automatically considered tax expenditures because the basic tax structure is assumed to be neutral in its treatment of different kinds of taxpayers and income. Of course, none of these criteria is absolute, and interpretations of the "specialness" of any given provision may change over time.²¹

French Bureau of the Budget, Ways and Means Estimates, in Budget Papers for 1983, "Part Three: Tax Expenditures" (Paris, 1982), p. 111.

19 Phillippe Dumas, French Superintendent of the Treasury, "The Tax Expenditure Concept: A New Instrument for Public Finance Analysis," Banque, No. 384 (May 1979), p. 587.

20 French Council on Taxation, Report to the President of the Republic (Paris, Journaux Officiels, 1979), Chapters I-III on tax expenditures.

21 French Bureau of the Budget, "Tax Expenditures," in Budget Papers for 1983, p. 113.

Individuals' capital gains, for example, were generally not subject to tax before 1976 and therefore nontaxation of capital gains was judged to be the norm. The law was changed in 1976, however, and now capital gains are generally subject to tax, thereby reversing the standard rule.²²

In its 1979 report, the Council on Taxation emphasized the usefulness of annual tax expenditure budgets. Legislators could use the list for reference if they wished to repeal tax expenditures in order to cut government costs, to expand certain tax expenditures in order to fulfill given policy goals, or to coordinate tax expenditures with direct spending in order to encourage greater efficiency. Tax expenditure budgets would also help to illustrate the priorities of government policy at given points in time. In practice, the French tax expenditure lists appear to receive about the same amount of attention from policymakers as those in the United States. The lists are consulted mainly for suggestions of possible revenue increases during times of fiscal restraint. As more estimates are provided, it is reasonable to expect that they will be referred to more frequently.

The French tax expenditure estimates are not used formally in the government's budget accounting system as in Canada. The French budget process does, however, contain some formal constraints on revenues and direct spending. Once the government in power has submitted its budget, the Parliament votes on revenue and direct spending amounts. Any revenue or spending changes that the Parliament wished to make would have to be accompanied by measures to keep the budget deficit from increasing. For example, if the Parliament wished to increase spending for a particular domestic program above the government's budget proposal, it would also have to propose either to cut back other spending programs or increase taxes. Similarly, an expansion of a tax expenditure provision would have to be accompanied by revenue increases elsewhere or spending cuts. If, on the other hand, the Parliament decided to pay for increased spending or tax expenditures by increasing the deficit, the government is allowed to oppose such proposals and, according to the Constitution, the Parliamentary proposals must then be dropped. As a result, any attempts by the Parliament to increase government expenditures by increasing the government deficit generally have been unsuccessful.²³

22 French Ministry of Economy and Finance, "Tax Expenditures," p. 36.

23 Article 40 of the French Constitution of 1958; and Guy Lord, The French Budgetary Process (Berkeley, CA: University of California Press, 1973), pp. 25-26.

Spain

In Spain, a tax expenditure list covering both direct and indirect taxation has been included in the central government's annual budget papers since 1980. The tax expenditure listings are published to provide information to government decisionmakers, just as they are in the United States. The estimates are not subject to any vote, but they are frequently referred to during discussions of policy.

The revenue loss from Spanish central government tax expenditures has grown significantly during the last three years. Tax expenditures totaled 425 billion pesetas in 1981 (18 percent of estimated tax revenues), growing to an estimated total of 691 billion pesetas in 1983 (20 percent of estimated revenues).²⁴ In both 1981 and 1983, just under half of the total revenue loss resulted from provisions of the individual and corporate income taxes. Estimates of tax expenditures related to other tax sources--the estate and net wealth taxes, the general tax on trade, and the fiscal monopolies (tobacco and petroleum)--are also provided in the annual tax expenditure listings.

In addition to listing tax expenditures by tax source, recent budget documents show tax expenditures aggregated into major budget function categories to illustrate the policy priorities implied by the tax expenditures in current law. Table 7 compares the functional distribution of tax expenditures in 1981 with the distribution in 1983. Total government resources delivered in the form of tax preferences seem to be about equally split between social relief and economic development, with some tax expenditures also directed toward defense and general services.

Australia

An official list of tax expenditures ("taxation expenditures" in Australian documents) was first included in Australia's Budget Statements for fiscal year 1980-1981.²⁵ The 1981-1982 Budget Statements provided revenue loss estimates for nine tax expenditure provisions that provide relief to individuals through income tax rebates and deductions and for ten

²⁴ Spanish Ministry of Economics and Treasury, Annex to the Budget Papers for 1981 (Madrid, 1981); and Annex to the Budget Papers for 1983 (Madrid, 1983).

²⁵ House of Representatives Standing Committee on Expenditure, Parliament of the Commonwealth of Australia, Taxation Expenditures, Report from the Committee (Canberra, August 1982), p. 21.

TABLE 7. SPAIN: TAX EXPENDITURES DISTRIBUTED BY BUDGET FUNCTION, 1981 AND 1983 (In percents)

	Percent of Total Tax Expenditures	
	1981	1983
Activities of a General Character		
General services	4	1
Defense	<u>1</u>	<u>1</u>
Subtotal	5	2
Social and Community Activities		
Education	1	2
Health, pensions, social security, and charity	9	13
Community aid	12	14
Other	<u>25</u>	<u>20</u>
Subtotal ^b	46	49
Economic Activities		
Agriculture, livestock, forestry, hunting and fishing	5	a
Mining, construction and other industries	8	3
Energy	1	a
Transportation and communication	1	6
Commerce	0	0
Tourism	0	1
Other	<u>34</u>	<u>39</u>
Subtotal ^b	49	49
Total ^b	100	100

SOURCES: Spanish Ministry of Economics and Treasury, Annexes to the Budget Papers for 1981 and 1983.

a. Less than 0.5 percent.

b. Details may not add to totals because of rounding.

tax preferences that aid industry. Several other tax expenditures for individuals and industry, including several special relief exemptions and tax concessions for certain business expenses, were not estimated because of definitional problems and lack of data.²⁶

On its own initiative, Australia's Department of the Treasury expanded the information supplied on tax expenditures in the annual budget papers. In response, Parliament quickly grew enthusiastic for review of the tax expenditure concept and specific tax preferences. In 1982, the House of Representatives Committee on Expenditure held hearings on tax expenditures. The committee requested information that would contribute to a detailed listing and grouping by functional category of tax expenditures. In addition, the committee requested revenue loss estimates for each tax expenditure and a description of the particular government objective each is intended to serve. The Treasury submitted a report (later included in the Committee Report and the 1982-1983 Budget Statements) that listed 113 income and sales tax expenditures by functional category, although very few revenue loss estimates could be calculated.²⁷ The committee also obtained a listing of provisions in the customs and excise tariffs which provide for preferential treatment and therefore may be considered tax expenditures.²⁸

In its report, the Expenditure Committee described fully the potential policy uses of regular and reliable tax expenditure information and the extent to which such information is presently available. Both legislators and Treasury officials recognized the need for better review of the

26 The Honorable John Howard, M.P., Treasurer of the Commonwealth of Australia and the Honorable Dame Margaret Guilfoyle, D.B.E., Minister for Finance, Budget Statements 1981-1982, 1981-1982 Budget Paper No. 1 (Canberra, 1981), pp. 242-247.

27 Australian Standing Committee on Expenditure, Taxation Expenditures, pp. 25-33; and the Honorable John Howard, M.P., Treasurer of the Commonwealth of Australia and the Honorable Dame Margaret Guilfoyle, D.B.E., Minister for Finance, Budget Statements 1982-1983, 1982-1983 Budget Paper No. 1 (Canberra, August 17, 1982), pp. 263-287.

28 Any customs and excise tax preferences were incorporated into the Treasury list for presentation in the committee's report. (See Appendix 3 to the Report for the list.) These items were described in a submission to the committee from the former Department of Business and Consumer Affairs. Australian Standing Committee on Expenditures, Taxation Expenditures, p. 9.

distribution of government resources through the tax system. The committee cited four criteria for review of tax expenditures: the need for stated tax expenditures, their appropriate size, their effectiveness in meeting their stated objectives, and the appropriateness of tax expenditures as alternatives to direct outlay programs. Such a review process would not require any reorganization of Parliamentary committee jurisdictions because of the recent establishment of six Estimates Committees in the House of Representatives. These committees were formed specifically to examine proposed departmental expenditures contained in the annual main appropriation bill, but their mandate is broad enough to include review of tax expenditures without a legislative change.²⁹

In Australia, policymakers appear eager to apply the tax expenditure concept, but currently there are many stumbling blocks in the way of its practical use. Technical staff and data for revenue loss estimating are in relatively short supply. Given present Treasury and Parliamentary interest, however, staff and resources may be increased.³⁰

The Netherlands

The government of the Netherlands has not yet published an official list of tax expenditures. In 1977, however, the Minister of the Treasury set up a working committee of Treasury officials and academics to study the concept. It was to develop a definition of tax expenditures suitable in the context of Dutch tax law, to identify tax expenditures in existing tax provisions, and to calculate revenue loss estimates for each tax expenditure identified. The committee is in the process of writing an interim report that is expected to be finished in 1984.

Ireland

No official tax expenditure budget has yet been published in Ireland. In July 1982, however, a member of the legislature suggested that a tax expenditure list should be compiled and included in the annual finance accounts provided by the Department of Finance.³¹ The Commission on

²⁹ Australian Standing Committee on Expenditures, Taxation Expenditures, p. 6 and pp. 15-16.

³⁰ Australian Budget Statements 1982-1983, pp. 266-268; and Standing Committee on Expenditures, p. 34.

³¹ Dail Proceedings, Report Stage (Dublin, July 8, 1982), Col. 1755-6.

Taxation, an official commission appointed to study options for reform of the Irish tax system, also encouraged the Department of Finance to publish a tax expenditure budget regularly.³²

In responding to these requests, the Irish Minister of Finance said that he did not object to the idea of compiling a list of tax expenditures, but such a list should be included instead in the Annual Report of the Revenue Commissioners.³³ The list could thus be published without any new statutory requirement. The Minister of Finance seemed reluctant to assign a more official status to the proposed tax expenditure list by including it in the annual budget because of the many conceptual, definitional, and administrative problems that would have to be solved in order to complete it. This view is similar to the one held by Treasury officials in the United Kingdom, who decided to avoid many definitional and administrative problems by including all direct tax reliefs in their lists and by qualifying many of their estimates.

Belgium

The tax expenditure concept and the issues involved in compiling a tax expenditure budget have received relatively little attention from government officials in Belgium. In late 1982, when the Minister of Finance presented the government's budget for 1983 to the House of Representatives, he said that the data were lacking for a listing of tax expenditures that benefit individuals.³⁴ The usefulness of such a list had already been recognized, however, and the Finance Minister recently charged the Superior Council on Finance (an official government commission) to examine the definitional and measurement issues and to work on compiling a tax expenditure list.³⁵

³² Commission on Taxation, "Direct Taxation" (Dublin, July 1982), p. 88.

³³ Dail Proceedings (July 8, 1982), col. 1755-6.

³⁴ Belgian Minister of Finance, Report to the House of Representatives on the Budget of Ways and Means for 1983, p. 92, as quoted in a draft of Max Frank, "Tax Expenditures," article to be published in October 1983 in The Cahiers Economiques de Bruxelles. Note that the fiscal year for the Belgian government is the same as the calendar year.

³⁵ In July 1982, the Belgian Superior Council on Finance emphasized the need for a tax expenditure budget and in February 1983 the Minister of Finance (and thus President of the Council) said that he would ask the Council for an in-depth study of tax expenditures. Max Frank, "Tax Expenditures" draft.

At present, the only available information on tax expenditures in Belgium is the result of academic research. One study identifies and provides revenue loss estimates for 13 tax expenditures related to the individual income tax. These 13 provisions cost an estimated 166.7 million Belgian francs in 1980, about 36 percent of individual income tax receipts.³⁶

International Comparisons

International comparisons of the use of tax expenditures and tax expenditure budgets were first discussed at the 1976 Congress of the International Fiscal Association in Jerusalem and at the 1977 Congress of the International Institute of Public Finance. These meetings revealed the scarcity of information on tax expenditures in most countries.³⁷ More recently, the International Tax Expenditure Project has been working on the development of comparable tax expenditure lists, covering national income taxes, sales taxes, and wealth taxes, for seven countries (Canada, France, the Federal Republic of Germany, the Netherlands, Sweden, the United Kingdom, and the United States). These lists are being compiled according to a common set of guidelines for classifying tax provisions as basic provisions or tax expenditure provisions, instead of the various guidelines now used in individual countries. The project hopes to provide better information for international comparisons (such as those of the Organization for Economic Cooperation and Development) of budgeting policies and the distributional consequences of certain tax expenditures. The project's results may also make possible the use of the tax expenditure concept in bilateral and multilateral tax treaties.³⁸

³⁶ Daniele Meulders and Jean-Louis Six, "Budget of Tax Expenditures Related to the Tax on Individuals," Cahiers Economiques de Bruxelles, No. 98 (Brussels, 2nd trimester, 1983), pp. 280 and 287.

³⁷ Paul R. McDaniel, "International Aspects of the Tax Expenditure Concept," a study prepared for the United States Treasury Department, Contract No. T05-80-9, IA-133 (1981), Sec. 1.2.

³⁸ *Ibid.*, Secs. 2.0 - 2.5.

LESSONS TO BE LEARNED FROM THE INTERNATIONAL EXPERIENCE

Analytical and Technical Requirements

The tax expenditure concept can be applied successfully to different government systems, although the definitional and administrative problems of compiling estimates for a comprehensive tax expenditure budget can be quite onerous. The task is especially difficult if a government has not previously collected extensive data on taxpayers' use of tax preferences. It is also not surprising to see that, as the data and the technical expertise needed to compile tax expenditure lists become more available, the resulting lists receive greater official recognition.

Many governments have routinely supplied estimates for tax provisions on an ad hoc basis. A government is likely to develop a tax expenditure budget only if the advantages of a formal listing presented at the same time as the annual spending budget are viewed to be quite significant. The British Treasury, for example, stated that it was in favor of estimating tax expenditure provisions only upon request rather than annually, because of its limited resources. After a Parliamentary committee held hearings on the potential usefulness of a tax expenditure budget, however, a decision was made to publish a broad list of tax reliefs with each year's budget. The British Treasury listings do not attempt to identify which provisions qualify in strict theoretical terms as tax expenditures, however, and Treasury officials warn that many of the estimates included are "particularly tentative and subject to a wide margin of error."³⁹

Comparison with the United States

Comparing the evolution of tax expenditure budgeting in other countries with the United States' experience reveals many similarities and also some interesting differences. Germany and Austria, for example, publish more general listings of both direct and tax aids. By grouping outlay and tax subsidies together within each budget function, the German and Austrian reports illustrate the allocation of both types of government spending and the relative importance of each in each policy area. To do this in the United States, it would have to be decided whether to present tax expenditure estimates in the form of revenue losses or outlay equivalents and a list of existing direct subsidies would have to be integrated with the tax expenditure tables.

³⁹ The United Kingdom, Chancellor of the Exchequer, The Government's Expenditure Plans 1982-1983 to 1984-1985, p. 99.

Unlike in the United States, tax expenditures and direct spending are treated together in the budget process in Canada. All types of government aid are voted as a package for each policy area. The envelope system thus encourages tradeoffs among the various types of subsidies. In the United States, such formal coordination between tax expenditures and direct spending would require some important changes in the traditional jurisdictional boundaries of several legislative committees.⁴⁰

⁴⁰ For more discussion of the various ways in which tax expenditures could be coordinated with direct outlays, see CBO, Tax Expenditures (November 1982), Chapter III.

APPENDIXES
